



Legislative Bulletin.....September 7, 2007

Contents:

H.R. 1908 — Patent Reform Act of 2007

Summary of the Bills Under Consideration Today:

Total Number of New Government Programs: 0

Total Cost of Discretionary Authorizations: \$22 million over 5 years

Effect on Revenue: Negligible

Total Change in Mandatory Spending: unknown, but negligible

Total New State & Local Government Mandates: \$330 million over five years

Total New Private Sector Mandates: \$655 million over five years

Number of Bills Without Committee Reports: 0

Number of Reported Bills that Don't Cite Specific Clauses of Constitutional Authority: 0

H.R. 1908 — Patent Reform Act of 2007 (*Rep. Berman, D-CA*)

Order of Business: The bill is scheduled for consideration on Friday, September 7, 2007, under a structured rule.

Background: Article I, Section 8, Clause 8 of the U.S. Constitution states that Congress shall have power to:

“promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive right to their respective Writings and Discoveries”

Congress passed the first patent statute in 1790, which did not create a patent office, but directed applicants to file a petition with the Secretary of State. The Patent Office remained under the Department of State until 1849, was then transferred to the Department of the Interior, and in 1925 was transferred to the Commerce Department, where it remains today. The last major overhaul of U.S. patent law was over 50 years ago.

For additional information regarding patent reform, please see [CRS Report RL33996](#).

Summary: H.R. 1908 would make substantial changes to U.S. patent law that are expected to have a significant impact on the U.S. patent system. Among the more notable and controversial provisions are a shift to a first-to-file priority system (instead of the current first-to-invent system), applying new “apportionment” rules to patent infringement damages, a new post-grant review process, higher burdens to find “willful infringement,” expanded regulatory authority for the U.S. Patent and Trademark Office, as well as the harmonization of U.S. patent law with the prevailing laws of other major industrialized nations.

The bill would also impose intergovernmental and private-sector mandates of \$985 million over five years, and would have a net discretionary cost of \$11 million over five years.

Discussion of Key Issues & Conservative Concerns: While conservatives have weighed in both for and against various provisions and on the overall bill, there does seem to be broad support for patent reform in general. Support for the bill has generally come from the high-technology, financial services, cable, and wireless industries, who seek to modernize patent law for the 21st century. Opposition and concern has generally come from the bio-technology and emerging-technology industries, venture capital, universities, and manufacturing sectors, who believe the legislation downgrades the patent rights that current law affords. The most controversial provisions are discussed below.

First-to-File System. Currently, the U.S. operates under a “first-to-invent” patent system, where a patent is awarded to the inventor that was the very first to invent the patented item (in cases where two patent applications are filed at the same time). In instances where a patent has already been awarded, current law provides a vehicle (initiating “interference proceedings”) to determine the first inventor. H.R. 1908 would replace the current system with a first-to-file system, under which the first inventor to file for a patent would be awarded the patent, regardless of the actual date of invention. This change would harmonize a major component of the U.S. patent system with the vast majority of other countries in the rest of the world (there is no global patent system, so the various provisions of patent law in different countries can have significant impact upon inventors around the world). The U.S. is currently the only industrialized nation that does not operate under a first-to-file system. The bill would replace interference proceedings with “derivation proceedings,” which would provide a forum to determine if a patent application that was first filed was misappropriated from another inventor.

Proponents of this provision assert that a first-to-file system would make major strides in addressing the current disparities between U.S. law and foreign law, and would eliminate expensive and lengthy interference proceedings that are often ineffective. Some have estimated that the average cost of an interference proceeding is \$600,000, which can present a substantial barrier to smaller players in the patent system (such as universities and small high-tech firms). Opponents of this provision assert that it will create a “race to the Patent Office,” which will in turn significantly disadvantage small inventors that do not have the resources that larger corporations do, resulting in poorly crafted patent applications and lost opportunities for those entities.

Patent Infringement Damages & Willful Infringement. Current U.S. patent law provides that a patent holder is entitled to damages to compensate for patent infringement, and must either be

compensated for lost profits or at least receive a “reasonable royalty.” Thus, patent owners who do not manufacture their patented item may seek a reasonable royalty as compensation, while those that do manufacture their patent may seek lost profits. A court currently has broad discretion in determining fair compensation and penalty for infringement by considering a range of issues appropriate to the circumstances (often based on the 15 factors enumerated in *Georgia Pacific Corp v. U.S. Plywood-Champion Papers, Inc.* decided in 1999).

Determining appropriate damages for infringement of a particular patent can be a difficult and cumbersome process, since a product (such as a computer) can draw upon hundreds or even thousands of different patents. Thus, determining the value of a single patent to the overall value and marketability of the overall product is particularly arduous. The “entire market value rule” may be used by a court to permit recovery of damages “based upon the entire apparatus containing several features, where the patent-related feature is the basis for consumer demand.”¹ Conversely, a court may apply principles of “apportionment” to determine the appropriate amount of damages for infringement, where damages are awarded only for the portion of the product value that is affected by the relevant patent. In addition, a court may find that a patent was willfully infringed, which allows the damages to be increased up to three times the amount assessed.

H.R. 1908 would change the damages calculation in patent infringement cases regarding reasonable royalties, and modify the process to determine if damages may be based on the entire market value of the product containing the patented item. The bill would direct judges to determine how a royalty assessment should be conducted based one of three methods – one being a revised apportionment analysis, and another being an entire market analysis with a higher threshold. The bill would also significantly restrict a court or jury’s ability to make a finding of willful infringement (and therefore limit additional damages that can be awarded).

Proponents argue this provision is necessary in light of recent cases where patent owners have been awarded excessive judgments when only one component of a complex product may infringe on a patent, and often cite the \$1.52 billion judgment against Microsoft in *Alcatel-Lucent v. Microsoft*. Proponents also argue that the current system has created an industry of patent speculators who use the threat of an expensive and unpredictable lawsuit to extort money from infringement defendants. Regarding damages related to willful infringement, proponents argue that recent cases have been miscalculated and excessive.

Opponents argue that these provisions would not adequately compensate patentees for the actual harm caused by the patent infringement and that the patent owner’s damages would be reduced to that portion of the patented invention which in the judge’s view constitutes a unique contribution over prior art. They also argue that courts can (and do) ensure that any damages awarded by juries are appropriate and not excessive by exercising their discretionary oversight, and cite the fact that the damages verdict in the Microsoft case was recently reversed (due to an incorrect calculation for damages by the jury) and this past Tuesday the entire \$1.52 judgment was overturned by a U.S. Senior District Court in San Francisco. Further, the chief judge of the U.S. Court of Appeals for the Federal Circuit has argued that the provision regarding apportionment is highly complicated and would be a “massive undertaking for which courts are

¹ State Indus., Inc. v. Mor-Flo Indus., Inc. See CRS Product RL33996, p. 21.

ill-equipped.” Opponents of the enhanced criteria in order to determine willful infringement argue that these changes will make it much more difficult to obtain punitive damages from unscrupulous and aggressive patent infringers.

Post-Grant Review Procedures. Current U.S. law does not contain post-grant review procedures, providing for a comprehensive review of a patent already granted to ensure its validity, while similar procedures are common-place in foreign law. While U.S. law does provide for reexamination proceedings, this is viewed by some as too narrow and limited in scope and application. Some critics charge that the lack of post-grant review procedures has resulted in poorly defined patents and increased litigation after patent issuance.

H.R. 1908 creates a new post-patent grant review process administered by the USPTO to determine patent validity. An entity could petition for the cancellation of an issued patent within 12 months of its initial issuance (where there is no presumption of validity of the patent in question), and a detailed review process must be followed to determine the patent’s validity.

As noted above, proponents of these provisions argue that this will improve patent validity and decrease patent litigation, as well as harmonize U.S. law with that of other countries. Opponents argue that this new vehicle afforded to infringers would increase litigation by making challenges easier, provides an open-ended route to challenge valid patents that would increase uncertainty in patent validity (via the expanded reexamination provisions), and would disproportionately affect small companies and non-profit research groups that do not have the means and the time to endure such proceedings and the associated bureaucracy. Opponents also argue that the resulting uncertainty regarding issued patents may make it very difficult to attract venture capital necessary for research and development on new innovations.

Rule-Making Authority. The USPTO currently has limited authority to promulgate regulations regarding patents – only those directed toward the conduct of proceedings at the USPTO. As explained by a Federal Circuit Court, “Congress has not vested the [USPTO Director] with any general substantive rulemaking power...” H.R. 1908 would grant USPTO broad rule-making authority, allowing the USPTO to “promulgate regulations to ensure the quality and timeliness of applications and their examinations...”

Proponents, including the USPTO and the Commerce Department (its parent agency), argue that broader authority is necessary to “ensure an efficient and quality-based patent examination process,” and these enhanced power is necessary for USPTO to keep pace with technological advances of today’s inventions and the patent process that is so integral to commerce.

Opponents argue that this provision is vague and undefined and would grant overly broad rulemaking authority to the USPTO Director, would abdicate congressional power and responsibility in this sphere, and dilute the effective role courts have played in recent years.

Venue. The bill places new restrictions on the defendant’s ability to “forum shop” for patent friendly districts in which to file a patent infringement claim. The bill narrows a party’s ability to only bring a civil action in judicial districts where it has its *principal* place of business or where the defendant has committed a substantial portion of the supposed acts of infringement.

Proponents of this provision, including the Justice Department, argue that this will reasonably restrict the ability of plaintiffs to select a forum “that has little connection to either party” (though DoJ has some concerns with the net effect of the current language). Opponents argue that this provision would unduly restrict a patent owner’s access to the courts by restricting venue to a small minority of U.S. jurisdictions.

Bill Cost, Mandates, and Other Issues. The U.S. Patent and Trademark Office (USPTO) operates from user fees collected from those filing applications for patents and trademarks. Thus, while H.R. 1908 would increase the PTO’s net outlays by \$3 million in 2008 and \$11 million over the 2008-2012 period, the bill authorizes USPTO to collect fees to offset its increased costs. As noted above, the bill would also impose intergovernmental and private-sector mandates on certain patent applicants of almost \$1 billion over five years.

Further, CBO notes that “several provisions of H.R. 1908 would alter intellectual property protections associated with brand name drugs and could affect when competing versions of generic drugs ultimately enter the market. The potential effects of the bill on the pharmaceutical industry are highly uncertain.”

Section-by-Section Analysis: The specific provisions of the bill are summarized below by section.

Sections 1 & 2 – Short Title, Table of Contents, Etc.

- Includes the short title of the bill and table of contents, and notes that references to U.S. Code sections which do not include a Title are referring to Title 35 (patent law).

Section 3 – Right of the First Inventor to File.

- Changes U.S. patent law to award patents on a first-to-file basis (or, more specifically, a first-inventor-to file system), instead of the current first-to-invent priority basis, and makes various conforming amendments as noted below. See Conservative Concerns section for a broader discussion of the first-to-file system.
- Prohibits a patent from being issued if the claimed invention was (already) patented, described in a printed publication, in public use, or on sale (i.e. – if “prior art” exists) either: 1) one year before the effective filing date or 2) one year or less before the effective filing date other than through disclosures made by the inventor that filed the patent (or by persons who obtained the disclosed information from the inventor).

In other words, this provision retains current law which provides an inventor a one-year grace period in which he can make his invention/process publicly available prior to filing a patent application without this activity being used against him in seeking the patent later (so long as he files his patent application within one year of the initial publication of the invention). As noted in the committee report, the grace period “allows an inventor to assess the usefulness, marketability and practicality of the invention for a limited period of time before undertaking the expense of obtaining a patent on the invention.”

Note: “Prior Art” generally refers to any and all information regarding a particular invention that has been made publicly available, in any form, during a specified period of time.

- Stipulates certain exceptions where prior disclosures of the invention may not be considered prior art and thus may not be used to support the patent application, such as if the subject matter of the invention had been publicly disclosed (prior to the claimed disclosure within one year of the patent application) by the inventor or others who obtained the information from the inventor.
- Stipulates that subject matter and a claimed invention will be deemed to have been owned by the same person or subject to an obligation of assignment (e.g. – an employee which is the inventor who is obligated to assign the invention to his employer) to the same person if:
 - the (claimed) invention was made by or on behalf of parties to a joint research agreement that was in effect on or before the filing date of the invention;
 - the invention was made as a result of activities undertaken within the scope of the joint research agreement; and
 - the application for patent for the invention discloses or is amended to disclose the names of the parties to the joint research agreement.
- Repeals existing provisions for inventions made abroad (which have been in place for decades and that the committee report stated are obsolete).
- Replaces current interference proceedings (currently used to determine who the first inventor is) with new derivation proceedings (used to determine if a patent application that was first filed was misappropriated from another inventor). This provision allows an applicant to request initiation of a derivation proceeding (conducted by USPTO) to determine the right of the applicant to a patent. The request must explain the basis for finding that another applicant derived the claimed invention from the application requesting the proceedings and then filed an application claiming the invention (without authorization). The request must be made within 12 months of the earlier of 1) the date when the patent of an invention in question is issued, or 2) the date of first publication of an application for a patent of the invention in question.
- Allows the Patent Trial and Appeal Board (PTAB) to oversee derivation proceedings. Allows the PTAB to defer action on the proceedings for up to three months after the USPTA issued a patent to the applicant that filed the earlier application.

Note: The PTAB is established in Section 7 of the bill (discussed below), and also oversees post-grant review proceedings (discussed in Section 6).

- **Effective Date**: Stipulates that the above provisions will take effect 90 days after the President transmits to Congress a finding that “major patenting authorities” (those “at least” in Europe and Japan) have adopted a grace period substantially the same as: a

grace period consisting of 1-year ending on the effective filing date of a claimed invention, during which disclosures of the subject matter (of the invention) by the inventor or others who obtained the subject matter from the inventor (either directly or indirectly), do not qualify as prior art to the claimed invention.

In other words, Japan and other European countries must have substantially the same grace period in place (as certified by the President) before all the above provisions related to the U.S. move to a first-inventor-to-file patent system.

- Requires the Under Secretary of Commerce for Intellectual Property and the USPTO Director to conduct a study every seven years on the effectiveness and efficiency of the above provisions and to submit a report to the relevant congressional committees.

Section 4 – Inventor’s Oath or Declaration.

- Requires each inventor (as required to be listed in the patent application) to take an oath or declaration consisting of the following statements:
 - the application was made or was authorized to be made by the individual;
 - the individual believes himself or herself to be the original inventor or an original joint inventor of a claimed invention in the application.

The provision allows the Director to specify additional information relating to the inventor or invention that would be required. The provision also allows the applicant to provide a substitute statement under certain circumstances.

- Permits a person that the inventor has assigned (or is under an obligation to assign) to make an application for a patent. A person who shows sufficient proprietary interest in the matter may file a patent application on behalf of the inventor “on proof of the pertinent facts and a showing that such action is appropriate to preserve the rights of the parties.” The patent will be issued to the “real party in interest” (the patent filer, not the inventor), and the USPTO is not required to notify the inventor.

Section 5 – Right of the Inventor to Obtain Damages.

Note: The bill retains current law providing for damages to be awarded to a prevailing claimant to compensate for the infringement, which are to be “no less than a reasonable royalty” for the use of the invention by the infringer, plus interest and costs as determined by the court. Thus, damages may be awarded based on lost profits (if it is possible to determine) or a reasonable royalty. As such, the provisions below modify how a “reasonable royalty” is to be determined.

- Requires that an award of damages based on a reasonable royalty must use one of the three calculation methods listed below. Requires the court to identify the relevant factors to determine a reasonable royalty under the applicable method below and consider *only* those factors in making the determination. [emphasis added]

- Requires the court to conduct an analysis to ensure that a reasonable royalty is applied only to that economic value properly attributable to the patent's specific contribution over the prior art (apportionment). Requires the court to exclude from the analysis the economic value properly attributable to the prior art, and other features or improvements, whether or not themselves patented, that contribute economic value to the infringing product or process.
- Prohibits damages to be based upon the entire market value of the products or processes involved that satisfy that demand, *unless* the claimant shows that the patent's specific contribution over the prior art is the "predominant basis" (not defined) for market demand for an infringing product or process.
- Allows the court, in determining a reasonable royalty, to consider (or direct the jury to consider) the terms of any nonexclusive marketplace licensing of the invention as well as any other relevant factors under applicable law.

Note: As the committee reports notes, "providing a list of the [Georgia-Pacific factors](#) to the jury, as often occurs now, would be insufficient and impermissible under the revised 287(b) unless the court explains on the record why only that approach can produce a just damages award and is necessary in the interest of justice." The court would first be required to choose a calculation method, identify the appropriate factors, then only consider those specific factors in the determination. However, based on the plain text of the bill, it is not clear that the court must stipulate "*on the record* why *only* that approach can produce a *just damages* award and is *necessary* in the interest of justice." [emphasis added]

- Retains current law provisions regarding willful infringement damages, which allows a court to triple the damages found and assessed under 35 U.S.C. § 284 (as described above), except the bill adds additional requirements in finding willful infringement (as described below).
- Allows a court to find that an infringer has willfully infringed a patent *only* if the patent owner presents "clear and convincing evidence" that:
 - after receiving written notice from the patentee alleging acts of infringement (sufficient to give the infringer a reasonable expectation of suit on the patent) which specifically identifies each patent claim that the patent owner alleges is being infringed, the infringer performed one or more of the following alleged acts of infringement:
 - the infringer intentionally copied the patented invention with knowledge that it was patented; or
 - after having been found by a court to have infringed the patent, the infringer engaged in conduct that was not *colorably* different from the conduct previously found to have infringed the patent, and that resulted in a second finding of infringement.

Note: The above provisions would make it significantly more difficult for a court to make a finding of willful infringement, since a court or jury is currently under no

obligation to meet any specific requirements in order to make this finding (other than any specific requirements a particular judge may impose upon a jury).

- Prohibits a court from finding that an infringer has willfully infringed a patent for any period of time during which the infringer had an “informed good faith belief” (as defined within the provision) that the patent was invalid or unenforceable, or would not be infringed by the conduct later shown to constitute infringement.
- Expands current “prior user rights” (which may be used to defend against a charge of infringement) to apply to all patented inventions, rather than just business method patents as in current law. The provision also expands the timeframe in which this defense can be utilized.

Section 6 – Post-Grant Procedures.

- Allows any person to submit to the USPTO in writing:
 - prior art consisting of patents or printed publications which that person believes to be relevant on the patentability of any claim of a particular patent; or
 - particular statements of the patent owner filed in a proceeding before a federal court or the USPTO in which the patent owner takes a position on the scope of one or more patent claims.
- Provides that the submission of prior art or statements to USPTO discussed above will become part of the official file of the patent *if* the person submitting the information explains in writing the pertinence and manner of applying the prior art or written submission to at least one claim of the patent. The provision also allows the person’s identity who is submitting the information to be withheld upon written request.
- Modifies the patent reexamination provisions in current law to allow a reexamination request to be initiated at any time during the life of the patent, and further stipulates that the Director may determine whether a substantial new question of patentability is raised by information discovered by the Director or any person *other than the owner of the patent* (not stipulated in current law).
- Strikes the reexamination provisions in current law (35 U.S.C. § 132 & 133) and replaces them with a new provision that utilizes administrative patent judges (APJ) under procedures which the Director must establish. Reexaminations are currently conducted by patent examiners in the same manner as an initial patent examination. The committee report states that “reliance on the same corps of examiners to uncover and correct errors in their colleague’s initial decisions may result in institutional bias.” This provision also allows a third-party requester to file written comments in response to a Patent Office action, and also allows either party to request oral hearings before the APJ.
- **Creates new post-grant review procedures** available to a third-party (a person who is not the patent owner) where a person may file a cancellation petition seeking “to cancel

as unpatentable any claim of a patent on any ground,” and allows the Director to determine the appropriate filing fee.

- Allows post-grant proceedings to be initiated (per a filed cancellation petition) if:
 - the petition is filed within 12 months of the patent’s issuance (or reissuance); or
 - the patent owner consents in writing to the proceedings.
- Allows a cancellation petition to be considered only if:
 - the petition is accompanied by the fee (to be established by the Director);
 - the petition identifies the cancellation petitioner (the person filing the petition);
 - the petition sets forth in writing the basis for the cancellation, identifying each claim challenged and providing relevant information (as the Director may require by regulation), and includes copies of patents and printed publications that the cancellation petitioner relies upon in support of the petition; and
 - the petitioner provides copies of those documents to the patent owner or his designated representative.
- Prohibits a post-grant review proceeding if the petition for cancellation identifies the same cancellation petitioner and same patent as a previous petition for cancellation.
- Requires the Director to notify the patent owner and each petitioner in writing of the Director’s determination regarding the cancellation petition within 60 days of receiving the petition.
- Allows the patent owner, in response to a cancellation petition, to file one motion to amend the patent in one or more of the following ways: 1) cancel any challenged patent claim, 2) propose a substitute claim (for each claim), and 3) amend the patent drawings or otherwise amend the patent other than the claims. Additional motions to amend may be permitted only for “good cause shown.”
- Requires the Director to prescribe regulations to establish and govern post-grant review proceedings and related procedures. Those regulations must:
 - require that a final determination in a post-grant proceeding be made within one year of the date the review was initiated, except the Director may grant one six-month extension;
 - provide for discovery (information sharing and examination among parties) upon order of the Director;
 - provide for publication of notice in the Federal Register of the filing of a petition for post-grant review, for publication of the petition and relevant documents on the USPTO website, and for filings under seal exempt from publication requirements;
 - prescribe sanctions for abuse of discovery, abuse of process, or any other improper use of the proceeding;
 - allow for protective orders governing the exchange and submission of confidential information; and

- ensure that any information submitted by the patent owner in support of any amendment to the patent will be made publicly available.
- Requires the PTAB to issue a final written decision regarding the patentability of any patent claim challenged (and any new claim added based on a patent amendment), provided the review was initiated and not previously dismissed or settled.
- Provides that a post-grant review proceeding will be terminated upon the joint request of the petitioner and the patent owner (settlement), unless the PTAB has issued a written decision prior to the request for termination being filed. This provision requires that any settlement agreement regarding the cancellation be in writing and filed at USPTO.
- If the patent owner prevails in a post-grant review, the petitioner is thereafter prohibited from requesting or pursuing a reexamination, derivation proceedings, or a new post-grant review based on any argument raised during the post-grant review.
- Allows a dissatisfied party of the final PTAB determination in a post-grant review to appeal the determination to the U.S. Court of Appeals to the Federal Circuit.
- **Effective Date:** Stipulates that the provisions of Section 6 will take effect one year after the bill's enactment. Stipulates that the post-grant review provisions will only apply to patents issued on or after enactment. As noted by the committee report, "patents issued at any time before the effective date are subject to the amended reexamination provisions, but not subject to post-grant review proceedings."

Section 7 – Patent Trial and Appeal Board (PTAB).

- Creates a new Patent Trial and Appeal Board at the USPTO, and stipulates that the PTAB Board will consist of the Director, Deputy Director, the Commissioner for Patents, the Commissioner for trademarks, and the administrative patent judges (APJ). It further stipulates that the APJs must be of "competent legal knowledge and scientific ability" who will be appointed by the Director.
- Defines the PTAB duties as:
 - reviewing adverse decisions of examiners upon application for patents (on written appeal of an applicant);
 - reviewing adverse decisions of examiners upon patents in reexamination proceedings (upon written appeal of a patent owner);
 - reviewing appeals by patent owners and third-party requesters;
 - determining priority and patentability of invention in derivation proceedings;
 - conducting post-grant opposition proceedings;
- Stipulates that each appeal and derivation proceeding must be heard by at least three members of the PTAB, and further stipulates that each post-grant review must be assigned to a panel of three APJs.

- **Effective Date:** Stipulates that the provisions of Section 7 will take effect one year after the bill's enactment.

Section 8 – Study and Report on Reexamination Proceedings.

- Directs the Under Secretary of Commerce for Intellectual Property and the USPTO Director, within two years of enactment of this Act, to conduct a study on the effectiveness and efficiency of the different forms of proceedings available under Title 35 regarding the reexamination of patents, and submit the results to the appropriate congressional committees, including the Director's recommendations regarding these proceedings.

Section 9 – Submissions by Third Parties.

- Provides guidelines to the publication of pending patent applications. Specifically, the bill allows any person to submit for consideration and inclusion in the record of a patent application, any patent, published patent application, or other publication of potential relevance to the application examination, if the submission is made in writing before a specified date.

Section 10 – Tax Planning Methods Not Patentable.

- Stipulates that a patent may not be obtained for a tax planning method. The bill defines a “tax planning method” as a plan, strategy, technique, or scheme that is designed to reduce, minimize, or defer, or has, when implemented, the effect of reducing, minimizing, or deferring, a taxpayer's tax liability, but does not include the use of tax preparation software or other tools...” Stipulates that this provision will take effect on the date of enactment of the Act and will apply to patent applications filed on or after enactment.

Section 11 – Venue and Jurisdiction.

- Strikes 28 U.S.C. § 1400 regarding venue for patents and copyrights, which reads as follows:
 - (a) Civil actions, suits, or proceedings arising under any Act of Congress relating to copyrights or exclusive rights in mask works or designs may be instituted in the district in which the defendant or his agent resides or may be found.
 - (b) Any civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business.
- Replaces the above section regarding venue with the following provision (with regard to patents), which states that a party “shall not manufacture venue by virtue of assignment, incorporation, or otherwise to invoke the venue of a specific district court.”

- Stipulates that any civil action for patent infringement or any action for declaratory judgment may be brought only in a judicial district:
 - where the defendant has its *principal* place of business or in the location or place in which the defendant is incorporated, or for foreign entities with a U.S. subsidiary, where the defendant's primary U.S. subsidiary has its principal place of business or in the location or place in which the defendant's primary U.S. subsidiary is incorporated;
 - where the defendant has committed a *substantial* portion of the acts of infringement and has a regular and established *physical* facility that the defendant controls and that constitutes a substantial portion of the operations of the defendant;
 - where the primary plaintiff resides, if the primary plaintiff in the action is an institution of higher education; or
 - where the plaintiff resides, if the plaintiff or a subsidiary of the plaintiff has an established *physical* facility in the district dedicated to research, development, or manufacturing that is operated by full-time employees of the plaintiff or the subsidiary, or if the sole plaintiff in the action is an individual inventor who is a natural person and who qualifies at the time the action is filed as a micro entity (under 35 U.S.C. § 124).
- Allows the district court to transfer any civil action brought under the provision above to any other district court or division where, 1) the defendant has substantial evidence or witnesses, and 2) venue would be appropriate under 28 U.S.C. § 1391 (regarding venue generally) and 1404 (regarding change of venue).
- Allows appeals from interlocutory orders that determine construction of claims in patent infringement suits. The bill stipulates that the district court has discretion whether to approve the appeal or whether to stay proceedings in the district court pending the appeal.

Note: Interlocutory orders generally refer to an order or judgment given in an intermediate stage the initiation and termination of a cause of action, used to provide a temporary decision (which is not final and usually not subject to appeal).

Section 12 – Additional Information; Inequitable Conduct as Defense to Infringement.

- Requires the Director to require applicants to submit a search report and other information and analysis relevant to patentability. The bill stipulates that an application will be regarded as abandoned if the applicant fails to submit the required search report within the manner and timeframe prescribed by the Director. Note: PTO estimates that the cost for applications to research and provide such information would be about \$5,000 to \$10,000 per search report (according to CBO).
- Stipulates that micro-entities are not subject to the above requirement. As summarized by the committee report, a micro-entity is “a small entity who has not been named on five or more previously filed patent applications, has not assigned, granted or conveyed a license or other ownership interest in the application and is not under an obligation by

contract or law to do so, and does not have a gross income of greater than 2.5 times the Average Gross Income (AGI) as reported by the Secretary of Labor.”

- This provision codifies the judicially-created doctrine of “inequitable conduct” as a defense to patent infringement. The committee report states that “the defense of inequitable conduct was established by the courts as an equitable remedy aimed at deterring applicants from deliberately misstating or withholding information that is materially related to the examination of an application.”

Section 13 – Best Mode Requirement.

- Eliminates as a defense to patent infringement the patentee’s failure to comply with the best mode requirement (35 U.S.C. § 112).

Section 14 – Regulatory Authority.

- Modifies the powers and duties of the USPTO (35 U.S.C. § 2) to include the authority to promulgate regulations to “ensure the quality and timeliness of applications and their examinations...”

Section 15 – Technical Amendments.

- Makes various technical and conforming amendments.

Section 16 – Study of Special Masters in Patent Cases.

- Requires the Director of the Administrative Office of the U.S. Courts to conduct a study of the use of special masters in patent litigation who are appointed in accordance with Rule 53 of the Federal Rules of Civil Procedure, and submit a report to Congress on the findings.

Section 17 – Rule of Construction.

- The committee report states “It is the Committee’s intention to preserve the CREATE Act [Cooperative Research and Technology Enhancement Act; P.L. 108-453] as originally codified in 35 U.S.C. § 103(c), in the new 102(b)(3). Section 17 explicitly states this intention and directs any inquiry to the purpose of the new 102(b)(3) to the legislative history of the CREATE Act.

Outside Organizations Supporting: The following is a short list of major organizations that are supporting H.R. 1908, or view the bill and its provisions favorably:

Adobe
Apple
Chevron Corp.
Business Software Alliance

Cisco Systems
Comcast
Countrywide Financial Corp.
Dell

eBay
Intel
Intuit
Hewlett-Packard
Mastercard Worldwide
Microsoft

NCR Corp.
Oracle
Seagate Technology
Symantec
Time Warner
Visa U.S.A.

[Click here](#) for a more complete list of organizations that support H.R. 1908.

Outside Organizations Opposing: The following is a short list of major organizations that are opposing, or have serious concerns with, the reported version of H.R. 1908:

3M
AFL-CIO
Advanced Medical Technology Assoc.
Allergan, Inc.
American Conservative Union
Biotechnology Industry Organization
BIOCOM
Caterpillar
Christian Coalition
Corning
Cummins
Dow Chemical
DuPont
Eagle Forum
Eli Lilly
Exxon Mobil
General Electric

Innovation Alliance
The Leadership Institute
Medical Device Manufacturers Assoc.
Merck
Motorola
National Assoc. of Manufacturers
NanoBusiness Alliance
NCPA
Novartis
PepsiCo
PhRMA
Procter & Gamble
Professional Inventors Alliance
Qualcomm
SanDisk
United Steelworkers
Weyerhaeuser

[Click here](#) for a more complete list of organizations that oppose, or have voiced strong concerns, about H.R. 1908.

Amendments: Amendments made in order under the structured rule will be summarized in a separate RSC document.

Bonus Fact: The first patent statute was passed on April 5, 1790, by the Congress of the twelve United States. Rhode Island was ratified and joined the Union as the thirteenth state 49 days later, on May 29, 1790. Patents were originally valid for 14 years, whereas currently a patent has a 20-year lifespan, during which time the patent holder may sell the patent, license it, or enforce granted patent rights.

Committee Action: H.R. 1908 was introduced on April 18, 2007, and referred to the Committee on the Judiciary's Subcommittee on Courts, the Internet, and Intellectual Property. Subcommittee hearings were held on April 26th, and a mark-up was held at the sub-committee

and the committee level. The full committee reported the amended bill by a voice vote on July 18, 2007 (House Report [110-314](#)).

Administration Policy: A Statement of Administration Policy (SAP) on H.R. 1908 is not yet available.

Cost to Taxpayers: According to CBO, H.R. 1908 will authorize \$3 million in FY2008 and \$22 million over the FY08-FY12 period. [Click here](#) to view full CBO Report.

Does the Bill Expand the Size and Scope of the Federal Government?: Yes. As noted above, the bill provides expanded rule-making authority to the U.S. Patent and Trademark Office.

Does the Bill Contain Any New State-Government, Local-Government, or Private-Sector Mandates?: Yes. According to CBO, “**H.R. 1908 would impose intergovernmental and private-sector mandates, as defined in the Unfunded Mandates Reform Act (UMRA)**, on certain patent applicants. Based on information from PTO, CBO estimates that the cost of complying with the mandates would exceed the annual threshold for private-sector mandates established in UMRA (\$131 million in 2007, adjusted annually for inflation) in each of the first five years the mandate is in effect. CBO estimates that the costs to state and local governments of complying with the mandates would not exceed the annual threshold for intergovernmental mandates established in UMRA (\$66 million in 2007, adjusted annually for inflation).”

Collectively, this would amount to \$197 million in unfunded mandates on the intergovernmental and private sectors for FY2007 and \$985 million in unfunded mandates over the FY07-FY11 period.

Constitutional Authority: The Judiciary Committee, in House Report [110-314](#), cites constitutional authority in Article I, Section 8, Clause 8 (granting of patents and trademarks). House Rule XIII, Section 3(d)(1), requires that all committee reports contain “a statement citing the *specific* powers granted to Congress in the Constitution to enact the law proposed by the bill or joint resolution.” *[emphasis added]*

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